United States
Department of
Agriculture

Farm
Service
Agency

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Dear Producer:

The Farm Security and Rural Investment Act of 2002 made many changes to the Commodity Programs requirements for producers. One of the changes effective for Fiscal Year 2003 through 2007 is the added provision for a $2.5 million average adjusted gross income limitation as an eligibility requirement for an individual and entity to receive any benefits under the commodity programs and conservation programs. However, the one requirement that did not change is the requirement to comply with rules of payment limitation and payment eligibility. I want to take this opportunity to remind all producers of some important payment limitation and payment eligibility requirements that will continue to apply and can have a significant impact on eligibility and payments.

Most programs require a "person" determination and an "actively engaged in farming" determination. For an individual or entity to be considered a separate "person", the individual or entity must have a separate and distinct interest in the land or crop involved, exercise separate responsibility for this interest and maintain funds and accounts separate from that of any other individual or entity for this interest.

In general, for an individual or entity to be considered "actively engaged in farming" a significant amount of one or combination of capital, land or equipment must be contributed to the farming operation by the individual or entity. Contributions, which are financed by loan funds, must be obtained by a loan that is secured by the assets of the individual or entity in order to qualify as a significant contribution. The individual or entity must also contribute a significant amount of active personal labor or active personal management or a combination thereof. Claimed shares must be commensurate with the contribution to the farming operation and the contribution must be at risk. Producers should provide adequate supporting documentation for their contribution of capital, land or equipment. No program benefits subject to limitation may be provided until all required forms for the specific situation are provided and the necessary payment limitation and payment eligibility determinations are made.

If a new or updated farm operating plan (CCC-502) and Payment Eligibility Average Adjusted Gross Income Certification (CCC-526) are filed for 2003 or a later year, they do not have to be re- filed or updated unless there is a change in the farming operation that would affect a determination. Changes that may affect a determination include, but are not limited the following:

- Change of contract share, which may reflect change of land lease from cash to share rent or vice versa (cash rent tenant rule may apply)
- Change in the size of the farming operation by the addition or deletion of a farm that may affect the application of a cropland factor
- Change in the structure of the farming operation, including any changes in the members' shares
- Change in contribution of farm inputs of land, capital, equipment, active personal labor or active personal management
- Acquisition of farming interests not previously disclosed on CCC-502 or update, including the farming interest of a spouse or minor child
- Increase in income that may affect the 3 year average for the determination of average adjusted gross income or other changes that affect eligibility under the average adjusted income limitation.

IMPORANT: Although national procedure does not require a new filing or updates annually, it does put the burden on you, the producer, to report changes in your operation timely. **Failure to do so can result in ineligibility for payments for all years affected**.

Sincerely,

Louis E. Buck
State Executive Director